



## **Plumbing & Mechanical Services (UK) Industry Pension Scheme**

**Report & Financial Statements  
for year ending 5 April 2020**

**Scheme Registration No. 10116577**

# Plumbing & Mechanical Services (UK) Industry Pension Scheme

**Year ended 5 April 2020**

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## Management and Advisors

### Scheme Registration Number

10116577

### Trustee

Plumbing Pensions (UK) Ltd

### Trustee Directors:

### Independent Director

Alan Pickering CBE (Chairman until 23 September 2020)

Jon Bridger (Chairman from 28 September 2020)

### Employer Directors

Andrew Beaumont

Douglas Blackhall (resigned 28 May 2019)

Richard Frew (resigned 29 May 2020)

Robert Price MBE

### Employee Directors

John Allott

Scott Foley

Steven Syson

### Trustee Secretary & Chief Executive

Kate Yates FIA

### Actuary

Nicola MacKay FIA, Willis Towers Watson Ltd

### Covenant Advisor

KPMG LLP

### Auditor

Grant Thornton UK LLP (appointed 30 October 2019)

Chiene + Tait LLP (resigned October 2019)

### Legal Advisors

Linklaters LLP

Pinsent Masons LLP

### Investment Consultant

Aon Hewitt Limited

### Custodian of Assets

JP Morgan Chase Bank

### Banker

Bank of Scotland

### Investment Managers

Baillie Gifford

BlackRock Investment Management (UK) Ltd

DTZ Investments

Insight Investment Funds Management Ltd

(from 25 June 2019)

Legal & General (Pensions Management) Limited

Macquarie Infrastructure and Real Assets (Europe) Ltd

PIMCO Europe Ltd (from 29 October 2019)

Prudential Corporate Assurance Co Ltd (until 14 June 2019)

Schroder Investment Management Ltd

Veritas Asset Management LLP

### Annuity Provider

Legal & General Assurance Society Ltd

### Scheme Administrator

Plumbing Pensions (UK) Administration Ltd

Bellevue House

22 Hopetoun Street

Edinburgh

EH2 4SB

### If you require further information about this report please contact:

Trustee Secretary

Plumbing Pensions (UK) Ltd

Bellevue House

22 Hopetoun Street

Edinburgh EH7 4GH

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## Chairman's Introduction

On behalf of the Trustee Board I am pleased to present the Annual Report and Financial Statements for the Plumbing & Mechanical Services (UK) Industry Pension Scheme ("the Scheme") for the year ending 5 April 2020.

The 2017 funding valuation was completed and formally submitted to the Pensions Regulator during May 2019. The funding valuation showed that while the Scheme had enough money to cover the benefits already built up, the cost of providing new benefits had gone up significantly because members are living longer than previously assumed and future expected investment returns across all asset classes are likely to be lower. In response to this and following consultation with the Constituent Bodies<sup>1</sup>, participating employers and contributing members, a decision was made to end future benefit accrual from 30 June 2019. This means that members will not build up any further benefits in the Scheme and employers will not build up any further pension liability. Member benefits built up before 30 June 2019 will be protected by the Scheme's rules and by legislation.

Work has begun on the 5 April 2020 actuarial valuation. I look forward to sharing the results in my report next year.

Over the twelve months to 31 March 2020, the Scheme's assets (excluding the bulk insurance policy) returned 2.5%, which was 1.9% behind the benchmark. The Scheme's assets at 5 April 2020 totalled £2.218 billion compared to £2.155 billion as at 5 April 2019. More information about the Scheme's investments is provided on page 8.

During the summer of 2019, the Trustee consulted with the Scheme's Constituent Bodies and participating employers about the proposed new investment strategy, with a view to reducing the level of investment risk and volatility and increasing the level of hedging to more closely align the Scheme's assets and liabilities. The new strategy was implemented during the autumn of 2019.

As part of an agreement following consultation to extend the employer "lock-in rule" to the end of 2020, the Trustee and Constituent Bodies committed to carry out a review of the Scheme's governance structure. The current structure was designed in the 1970's and, while it has served the Scheme well for many years, it requires modernisation to reflect the current environment and make it fit for the future. I hope to be able to report on the outcome of the governance review next year.

During the covid-19 pandemic we have prioritised paying pensions and dealing sensitively with the rise in death cases. The business has been able to operate close to normal with all staff working remotely from home, except for two employees who provide business critical on-site support. The Board is paying close attention to the Scheme's funding position, investment performance, employer covenant and member communications during the crisis. The Directors receive regular updates from the Chief Executive and the Board has met more frequently by video call. The Scheme has followed guidance from the Pension Regulator and the Pensions Administration Standards Association ("PASA").

Our broad and challenging agenda means it is important to have a strong and capable team that can dedicate the time required to make complex decisions. I would like to thank the Board, our staff and our team of external advisers who have worked hard over the year to make sure members receive the benefits to which they are entitled. I would particularly like to thank Douglas Blackhall and Richard Frew who resigned as Directors on 28 May 2019 and 29 May 2020 respectively, for their valuable input and expertise.

As we look ahead to 2020/21 and beyond, we remain committed to ensuring members and their beneficiaries received the benefits they have been promised.

  
Jon Bridger

**Chairman of the Trustee Company**

**30 September 2020**

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<sup>1</sup> The Association of Plumbing & Heating Contractors (APHC), the Scottish & Northern Ireland Plumbing Employers Federation (SNIPEF) and Unite the Union (Unite), collectively known as the Constituent Bodies. Under the Scheme's governing documents, the Constituent Bodies decide the Scheme's benefits and contribution rates.

## Trustees' Report

### Governance of the Scheme

#### How the Scheme is run

The Plumbing & Mechanical Services (UK) Industry Pension Scheme (the "Scheme") was established in 1975 and is registered under the Finance Act 2004. It offers career average defined benefits on retirement to employees in the plumbing and mechanical services industry in the United Kingdom. The industry wide nature of the Scheme allows employees to change employers while remaining in the same pension scheme.

The Scheme is managed and administered by the Trustee Company, Plumbing Pensions (UK) Limited, on behalf of members and in accordance with the terms of the Scheme Rules and relevant legislation. Details of the Trustee Directors are given on page 1. The Trustee Company is a 'not for profit' company, limited by guarantee. It does not pay dividends and it only incurs and recharges costs associated with the day to day running of the Scheme.

Trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee Company as a corporate trustee. The Trustee Company has overall fiduciary responsibility for the effective operation of the Scheme including administration of benefits, collection of contributions, payment of pensions and other benefits and the investment and safe custody of the Scheme's assets. The Trustee must act fairly in the interests of active members, deferred pensioners, pensioners and employers.

The Scheme is a registered pension scheme under section 153 of Part 4, Chapter 2 of the Finance Act 2004 and is therefore exempt from Income Tax and Capital Gains Tax.

To help the Trustee, there is a secure online web-portal which provides one easily accessible place for information relevant to their Trustee role, such as key Scheme documents, training materials and meeting papers.

#### Appointment and nomination of Trustees

Directors of the Trustee Company are appointed by three constituent bodies. The Association of Plumbing and Heating Contractors Ltd (the APHC) and the Scottish and Northern Ireland Plumbing Employers' Federation (SNIPEF) each nominate two Directors. Unite the Union nominates three Directors. Responsibility for nominating and removing Directors rests with the three constituent bodies. The Trustee Company appoints two non-voting independent Directors, one of whom has been nominated to be the independent Chairman.

#### Trustee Board

The Board has authority for all aspects of management and strategy of the Scheme including funding, investment, audit, administration and communications. The Board meets regularly throughout the year. The Board has a three-year business plan to ensure it meets its statutory obligations and operates the Scheme effectively.

The Board provides regular reports of meetings to the three constituent organisations, the APHC, SNIPEF and Unite the Union. None of the Trustee Directors act on behalf of the constituent bodies in relation to the Scheme during Board meetings.

#### Trustee Board Meetings

During the year, 10 Board meetings were held. The table below shows the Directors' attendance.

|                            | Board meetings attended | Board meetings held |
|----------------------------|-------------------------|---------------------|
| Mr A Pickering CBE – Chair | 10                      | 10                  |
| Mr J Allott                | 10                      | 10                  |
| Mr A Beaumont              | 10                      | 10                  |
| Mr D Blackhall             | 1                       | 2                   |
| Mr J Bridger - Independent | 10                      | 10                  |
| Mr S Foley                 | 10                      | 10                  |
| Mr R Frew                  | 9                       | 10                  |
| Mr R Price MBE             | 9                       | 10                  |
| Mr S Syson                 | 10                      | 10                  |

## Trustees' Report

### Governance of the Scheme (continued)

A summer summit was held for the Trustee and Constituent Bodies to meet and share ideas about the Scheme's long-term journey plan. This included discussions on the Scheme's funding, investment and covenant protection strategies.

#### Changes to the Trustee Board

George Young attended one Board meeting as an Alternate for Douglas Blackhall. Douglas Blackhall resigned from the board with effect from 28 May 2019 and Richard Frew resigned with effect from 29 May 2020. The Board are continuing the process to find replacements for Douglas or Richard.

#### Audit, Risk and Governance Committee

The Trustee Board has delegated some powers and responsibilities to the Audit, Risk and Governance Committee. The Committee's key responsibilities are outlined in a Terms of Reference document, which is reviewed annually. The Audit, Risk and Governance Committee consists of one representative from each of the Scheme's constituent bodies plus the Independent Trustee Chairman. The Committee meets regularly and submits reports from each meeting to the Board.

#### Trustee Training

The Pensions Act 2004 requires pension trustees to have sufficient knowledge and understanding to carry out their role effectively. The Trustee recognises the importance of good and timely training to ensure the Scheme is well managed.

All the Trustee Directors have the knowledge and skills to carry out the role effectively. On appointment, new Directors receive induction training and a pack containing key information about the Scheme. Ongoing training sessions are arranged as part of the programme of Directors' meetings, which includes an annual Trustee training event. Records of training are kept for each Trustee Director.

Trustee Directors receive a quarterly update of current issues relating to pensions and details of relevant training opportunities. All the Directors have completed the e-learning Trustee Toolkit developed by the Pensions Regulator.

During the year, training sessions for the Trustee Directors included long-term funding journey plans, liability driven investment, how the administration company works and cyber threats to pension schemes.

#### Conflicts of Interest

A conflicts of interest policy is in place to help the Trustee identify, manage and monitor any conflicts of interest (actual or potential) which may arise in relation to the Scheme. On appointment, each Trustee Director completes a declaration of their conflicts of interest and these are recorded in a conflict of interest register which is reviewed quarterly and approved at least annually by the Trustee Board. Conflicts of interest is an agenda item at the beginning of each Trustee meeting to ensure that conflicts are noted, properly identified and managed as they arise.

The Scheme operates an Alternate Trustee system, whereby if a Trustee Director is unable to attend a meeting or is too conflicted to participate in all or part of a meeting, he may withdraw and be replaced by an Alternate Trustee.

#### Risk Register

The Trustee has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk and to implementing and maintaining control procedures to reduce significant risks to an acceptable level taking note of the guidance within the Pension Regulator's Code of Practice on Internal Controls.

## Trustees' Report

### Governance of the Scheme (continued)

The objective of the Trustee's risk register is to record and take actions to limit the exposure of the Scheme, and the assets that it is responsible for safeguarding, to business, financial, operational, compliance and other risks. The risk register provides a framework for managing risk on a day-to-day basis and is reviewed regularly by management and annually by the Trustee.

#### Member Disputes

The Scheme has a two stage internal disputes resolution procedure (IDPR) for members. The first stage is determined by a sub-committee of the Trustee Board. If the complainant is not satisfied with the way their complaint has been handled or the decision, an appeal may be made to the Trustee Board to consider the matter. During the year 2 member disputes arose.

#### Employer Disputes

The Scheme also has a two stage IDR for participating employers. The first stage is determined by the Chief Executive. If the complainant is not happy with the way their complaint has been handled or the decision, an appeal may be made to a sub-committee of the Trustee Board. During the year 7 employer complaints were received. One employer raised a dispute directly with the Pensions Ombudsman. An employer dispute that was escalated to the Pensions Ombudsman in the previous financial year is still awaiting a decision.

#### Membership

The Scheme closed to new employers in March 2014 but remained open until 30 June 2019 to new members from existing participating employers and for new employers linked to existing participating employers, for example following a business restructure. From 1 July 2019 the Scheme has been frozen, which means members no longer build up future benefit accrual and employers do not build up further pension liabilities in the Scheme.

|                               | 2020   | 2019   | 2018   |
|-------------------------------|--------|--------|--------|
| <b>Contributing employers</b> | 0      | 350    | 368    |
| <b>Active membership</b>      | 0      | 2,436  | 2,876  |
| <b>Deferred membership</b>    | 20,471 | 19,111 | 19,066 |
| <b>Retired membership</b>     | 13,021 | 12,732 | 12,422 |
| <b>Total membership</b>       | 33,492 | 34,279 | 34,364 |

|                                    | Active Members | Deferred Members | Pensioners | Beneficiaries | Total   |
|------------------------------------|----------------|------------------|------------|---------------|---------|
| <b>At 6 April 2019</b>             | 2,436          | 19,111           | 9,782      | 2,950         | 34,279  |
| <b>New members joining</b>         | 22             | 0                | 0          | 0             | 2,449   |
| <b>Retirals</b>                    | (9)            | (637)            | 646        | 0             | 0       |
| <b>New dependants</b>              | 0              | 0                | 0          | 178           | 178     |
| <b>Leavers</b>                     | (2,427)        | 2,427            | 0          | 0             | (2,427) |
| <b>Deaths</b>                      | 0              | (46)             | (377)      | (152)         | (575)   |
| <b>Leaver no further liability</b> | (22)           | (383)            | (3)        | (4)           | (412)   |
| <b>Unreconciled</b>                | 0              | (1)              | 2          | (1)           | 0       |
| <b>At 5 April 2020</b>             | 0              | 20,471           | 10,050     | 2,971         | 33,492  |

The unreconciled numbers are due to timing differences when member reports are prepared.

## Trustees' Report

### Governance of the Scheme (continued)

#### Membership (continued)

As at 5 April 2020, the number of spouse/dependant beneficiaries included in the membership totals is 2,971. The Scheme has a bulk annuity policy held with L&G for the benefit of 11,033 pensioners and dependants as at 5 April 2020 (2019: 11,381).

As at 5 April 2020, there were 364 employers including 14 employers who were in a deferred debt arrangement when the Scheme closed to accrual on 30 June 2019.

#### Membership data

The scheme takes protecting member data very seriously. During the year, the IT systems were reviewed to improve data security and ensure the Scheme remains protected against common cyber threats. The Scheme also achieved 'IASME Gold' and 'CyberPlus' accreditation.

The Scheme administrators continue to reconcile the Guaranteed Minimum Pension (GMP) data the Scheme holds against records held by HM Revenue & Customs (HMRC). This is the first step in a wider project to equalise GMPs for men and women.

#### Contributions

Contributions to the Scheme, which in total amounted to £3,943,488 (2019: £11,999,710) during the year, were received in accordance with the schedule of contributions as shown in the Payment of Contributions on page 16.

#### Pension increases

Pensions in payment increases are granted each 5 April, with increases being paid from 1 May 2020. The increase rate depends on when members' contributions were made:

- There is no obligation to provide increases in respect of contributions before 6 April 1997<sup>2</sup>.
- For contributions between 6 April 1997 and 5 April 2005, the lesser of 5% and the rise in Consumer Price Inflation (CPI) is awarded.
- For contributions after 5 April 2005 the lesser of 2.5% and the rise in CPI is awarded.

The pension increase paid from 1 May 2020 in respect of contributions between 6 April 1997 and 5 April 2005 was 1.7% and the pension increase paid in respect of post 6 April 2005 contributions was 1.7%. No increase was paid in respect of contributions before 6 April 1997<sup>3</sup>.

For members who have not yet retired, each member's pension credit is revalued annually. Revaluation for pension built up before 6 April 2004 increases in line with national average earnings. Pension built up from 6 April 2004 increases in line with Retail Price Inflation (RPI) with the exception of any period of service on the 2017 Benefit Scale, when the revaluation rate is in line with CPI.

The revaluation rates applied from 6 April 2020 were as follows:

- 2.8% for pension credit built up before 6 April 2004
- 2.4% for pension credit built up after 6 April 2004 (excludes the 2017 Benefit Scale)
- 1.7% for pension credit built up after 6 April 2017 on the 2017 Benefit Scale

#### Transfer values

Members who leave service or who opt out of the Scheme can choose to transfer the value of their benefits to an approved pension arrangement. The Scheme confirms that all transfer values are calculated and verified in the way prescribed by regulations under the Pensions Act 1995. Transfer values are calculated using tables supplied by the Actuary and allow for the full value of a member's preserved benefits. No allowance is made for discretionary increases or bonuses.

<sup>2</sup> Other than the statutory requirement to increase members' GMP pensions

## Trustees' Report

### Governance of the Scheme (continued)

#### Administration

Plumbing Pensions (UK) Administration Limited is the Scheme's Administration Company. Staff involved in running the Scheme, including the Trustee Secretary, are employed by the Administration Company. The Scheme bears all costs associated with running the Administration Company.

#### Financial statements

The financial statements included in this annual report are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under section 41 (1) and (6) of that Act.

#### Section 75 employer debt

Section 75 employer debt legislation is a complex piece of pensions law which requires employers withdrawing from the Scheme to pay an exit charge called a section 75 employer debt, which can be significant. The Trustee has undertaken an extensive project to consult employers, extract the membership data required and agree a fair method to calculate and apply section 75 employer debt legislation for employers that cease to participate in the Scheme.

The Trustee has lobbied government officials to change employer debt legislation to make it fairer for the Scheme, which is nearly unique in the size of its orphan liabilities that more than double the debt an employer must pay. Orphan liabilities are pension liabilities in respect of members who worked for an employer that no longer participates in the Scheme. The Government has made it clear it has no intention to change the law. The Trustee has no choice and must issue employer debt notices because member benefits would be put at risk if it did not do so. Closing the Scheme to future benefit accrual has helped employers because they will not build up any further pension liabilities and closure removed one of the most common employer debt triggers. From 1 July 2019, an employer debt will only be triggered if an employer tells the Trustee it wishes to trigger its debt, a solvent employer passes a resolution to voluntarily wind up, an employer suffers an insolvency event or the Scheme winds up.

During the first half of 2019, the Scheme issued debt notices to employers that had triggered a section 75 employer debt and employers who requested an estimate of their debt. The Trustee does not calculate or pursue an employer debt where the cost to do so is considered disproportionate from a financial perspective.

In many cases, employers that received a debt notice have decided to use one of the legislative easements that allow them to defer a debt or transfer the pension liability to another participating employer. For other employers, the debts are unaffordable and a decision has been made to cease trading. The Trustee recognises the significant distress issuing employer debt notices is causing, particularly to small family run firms and unincorporated employers.

The Trustee has a duty to pursue employers for the non-payment of debts. However, before the Trustee commences legal action against employers, it is petitioning the Scottish Court for directions on the availability of the Scheme Rule indemnity.

#### Auditor

During the year, the previous auditor, Chiene + Tait LLP, resigned from the appointment. There were no issues raised by Chiene + Tait LLP following resignation. Grant Thornton UK LLP were appointed as auditor to the Scheme.

## Trustees' Report

### Investment Report

#### Scheme investment strategy

The Trustee takes an integrated approach to the management of risk and return in the Scheme. The investment of the Scheme's assets is set to be consistent with funding a defined level of benefits within an acceptable level of risk, having regard to the affordability of the Scheme to employers and the funding requirements in the Scheme Rules and relevant legislation.

The long-term investment strategy for the uninsured assets (excluding the bulk annuity policy purchased in June 2017) is set out below:

| Asset class                          | Weighting (%) |
|--------------------------------------|---------------|
| Public equities                      | 4%            |
| Property                             | 3%            |
| Illiquid assets                      | 3%            |
| Credit                               | 20%           |
| Liability Driven Investment          | 65%           |
| Inflation protecting illiquid assets | 5%            |
| <b>Total</b>                         | <b>100%</b>   |

Over the year the Scheme made further progress in moving towards the investment strategy outlined above. The Scheme gains the vast majority of its public equity exposure through a passive approach. In addition, there is a residual portfolio of equities with a manager called Baillie Gifford & Co which are gradually being sold. The Scheme undertook significant restructuring of its bond portfolio in October 2019, by fully redeeming its holding in the index-linked gilts and fixed interest pooled funds with Legal & General Investment Management ("LGIM") and investing £1,040m worth of proceeds into a Bespoke Pooled Liability Driven investment ("LDI") solution also managed by LGIM. The Scheme is the sole investor in the LDI. The aim of the bespoke LDI mandate is to better match the Scheme's liability profile and reduce volatility in the Scheme's funding level caused by movements in interest rates and inflation.

Alongside this the Trustee appointed two new credit managers, Insight Investments ("Insight") and Pacific Investment Management Company, LLC ("PIMCO"). The Scheme invested £160m in a pooled Asset Backed Securities fund with Insight in October 2019. The Scheme also invested £160m in a segregated Multi-Asset Credit mandate with PIMCO, which was funded over December 2019 to January 2020. Both investments were funded from the LDI portfolio with LGIM. The credit investments were undertaken to diversify risk for the Scheme and with an aim to generate additional returns to help reduce the deficit and act a buffer against longevity risk.

Over the year, the Scheme's property manager DTZ began to implement a reduction in the portfolio size, towards an initial £100m target. CBRE Global Investors (CBRE) continued to manage a pooled fund of long dated property assets with the aim of generating attractive, inflation linked income for the Scheme. The Scheme has a total commitment of £75m to this fund, as of 5 April 2020 £39m in capital had been drawn.

BlackRock are the cash manager for the Scheme; investing in a money market fund provides the Scheme with greater protections versus the Trustee bank account and is interest bearing.

The Scheme has been moving towards the long-term investment strategy over time and in a considered manner, taking into consideration the cost of selling and purchasing assets and market conditions.

## Trustees' Report

### Investment Report (continued)

As at 5 April 2020 the asset allocation split for the Scheme's uninsured assets was as follows:

| Asset Class                          | %            |
|--------------------------------------|--------------|
| Public Equities                      | 3.4%         |
| Property                             | 8.8%         |
| Illiquid assets                      | 0.8%         |
| Credit                               | 17.1%        |
| Liability Driven Investment          | 65.5%        |
| Inflation protecting illiquid assets | 2.3%         |
| Cash                                 | 2.1%         |
| <b>Total</b>                         | <b>100.0</b> |

Source: JPMorgan.

As at 5 April 2020, the value of the uninsured assets was £1,720m. The approximate value of the bulk annuity policy was £498m. Total Scheme assets were £2.218m (2019: £2.155m).

#### Statement of Investment Principles

The Scheme has a Statement of Investment Principles ('SIP'), as required by the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005. The Statement sets out in general terms the policy of the Trustee on a number of investment issues and is available on request from the Trustee Secretary and through the Plumbing Pensions website. The Statement is reviewed regularly and was last updated in June 2019, to incorporate the Scheme's approach to Socially Responsible Investment and Corporate Governance. At the year end date, the assets of the Scheme are not in accordance with the SIP as the Trustee is in the process of implementing the Scheme's new investment strategy. This involves the sale and purchase of illiquid assets, so the transition will take time to implement. The Trustee is in the process of updating the SIP to reflect the latest regulatory requirements ahead of the 1 October 2020 deadline.

#### Investment Performance to 31 March 2020

The Trustee monitors investment performance against the Scheme's strategic investment objectives. Investment reports are prepared quarterly for the Trustee.

The twelve months to 31 March 2020 saw the Scheme's portfolio returning 2.5%, which was 1.9% behind its benchmark.

The MSCI AC World Index (a broad, global equity index) fell by 9.5% in local currency terms over the past twelve months. Global equities performed well in the first three quarters of the period, recording the best annual equity market gain in a decade in 2019 as trade war concerns faded with the eventual agreement of a "phase one" US-China trade deal. However, Covid-19 brought an end to the decade-long bull market in Q1 2020, as the virus outbreak in China escalated into a global pandemic. Whilst unprecedented fiscal and monetary stimulus provided support to markets, the MSCI AC World index still recorded its worst quarter since the 2008 Global Financial Crisis with a -19.9% return in local currency terms in Q1 2020.

UK gilt yields fell in tandem with global government bond yields, as monetary easing measures by major central banks took interest rates to near zero. Meanwhile, increased demand for government bonds from investors seeking "safe haven" assets amidst an equity market sell-off and from central banks implementing quantitative easing measures also drove prices up and yields down further. According to FTSE All-Stocks indices, UK fixed-interest gilts returned 9.9% whilst index-linked gilts returned 2.2%.

## Trustees' Report

### Investment Report (continued)

Investment grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 75bps (0.75%) higher at 217bps, their highest level since 2012. Credit spreads widened by 94bps (0.94%) just in Q1 2020, a reflection of the risk asset sell-off which tormented equity markets over the quarter, as concerns over future corporate earnings and existing corporate leverage resurfaced.

UK commercial property returned 0.1%, supported by a steady income return of 5.4% which offset the 5.0% fall in capital values. The coronavirus outbreak intensified pressure on the already struggling retail sector, delivering a total return of -9.7% over the period.

The table below shows the Scheme's investment returns for the periods to 31 March 2020 as the return information to 5 April 2020 is not available:

#### Investment returns for periods to 31<sup>st</sup> March 2020

| 1 year<br>(%) |           | 3 years<br>(% p.a.) |           | 5 years<br>(% p.a.) |           |
|---------------|-----------|---------------------|-----------|---------------------|-----------|
| Fund          | Benchmark | Fund                | Benchmark | Fund                | Benchmark |
| 2.5           | 4.4       | 8.3                 | 5.5       | 10.3                | 8.0       |

Source: JPMorgan.

Note: Performance is stated excluding insured part of the portfolio due to unavailability of historic data.

#### Investment Custodian

The Scheme's segregated assets (excluding property) are registered in the name of the Scheme or are held in safe-keeping with an independent professional custodian, appointed by the Trustee. For the Scheme's pooled fund investments, the Scheme's chosen investment managers appoint a custodian to hold the underlying assets of the fund.

The Trustee's policy is to separate management and custody, to minimise the risk of misuse of Scheme assets. The custodian is responsible for the safe keeping of share certificates and other documents relating to the ownership of listed investments. Investments are held in the name of the custodian's nominee company, in line with common practice for pension scheme investments. Documents relating to the Scheme's UK property portfolio are held by the Scheme's property lawyers and are registered in the Scheme's name.

The Trustee reviews the custodian arrangements from time to time.

#### Additional Voluntary Contributions (AVCs)

Employee members could make AVCs to secure extra benefits at retirement until the Scheme closed to further accrual as of 30 June 2019. The benefits in relation to AVCs are money purchase, additional benefits and are not in the form of added years. The AVCs are attached to specific members who receive an annual statement of AVCs held. The Scheme replaced its AVC provider Prudential Assurance Company Limited with Legal & General for member contributions from 1 March 2019. The transfer of members' AVC funds from Prudential to Legal & General was carried out in June 2019.

## Trustees' Report

### Report on Actuarial Liabilities

A full actuarial valuation of the Scheme is undertaken at least once every three years based on a range of assumptions including future inflation, pension increases, revaluation increases, investment returns and life expectancy. The main purpose of the actuarial valuation is to set the future contribution rates to be paid to the Scheme. The actuarial valuation is performed on an ongoing basis, which assumes that the Scheme continues, using the projected unit credit method with a 5 year control period.

The most recently completed formal actuarial valuation was carried out as at 5 April 2017. The 2017 valuation concluded that the Scheme's assets of £1,926 million were enough to cover the Scheme's technical provisions of £1,897 million equating to a surplus of £29 million and a funding level of 102%.

A summary of the key assumptions used to calculate the technical provisions and future service cost as at 5 April 2017 is set out below. As mentioned in last year's report, some of the Scheme's assets were used to secure annuities with Legal & General in June 2017, therefore the benefits covered by this insurance policy are valued consistently with the value of the buy-in policy.

| Financial Assumptions                                   | % pa   |
|---|--|
| Discount rate for benefits not covered by the buy-in    | 2.9  |
| Discount rate for benefits covered by the buy-in        | Consistent with market price achieved in June 2017 |
| RPI inflation   | 3.4  |
| CPI inflation   | 2.4  |
| Increases pre-retirement:                               |  |
| - Credits accrued before 6 April 2004                   | 4.4  |
| - Credits accrued after 5 April 2014                    | 3.4  |
| - Credits accrued on the 2017 Benefits Scale            | 2.4  |
| Increases post-retirement:                              |  |
| - Credits accrued before 6 April 1997 <sup>3</sup>      | 0.0  |
| - Credits accrued between 6 April 1997 and 5 April 2005 | 2.4  |
| - Credits accrued after 5 April 2005                    | 2.4  |
| Demographic Assumptions                                 |  |
| Mortality base tables                                   | SAPS heavy with Scheme appropriate multipliers     |
| Future improvements in longevity                        | CMI 2016 core projections with a 1.5% trend        |

The 2017 valuation calculations do not include any allowance for Guaranteed Minimum Pension to be equalised between men and women. However, the Scheme's remaining surplus would be treated as a reserve towards the additional liabilities arising as a result.

As part of the 5 April 2017 valuation, the Actuary calculated that the employer and employee contribution rates for all membership categories would need to be increased significantly to meet the cost of providing benefits in respect of future years' service. Following a period of employer and employee consultation, it was agreed by the Scheme's constituent organisations and the Trustee that the Scheme will close to future accrual on 30 June 2019.

A new Schedule of Contributions was agreed on 30 May 2019, with the existing rates remaining in force up to 30 June 2019 and no contributions being paid in respect of the future accrual of benefits thereafter.

<sup>3</sup> With the exception of GMP pensions which receive statutory increases in payment

## Trustees' Report

### Report on Actuarial Liabilities (continued)

As part of the 2017 formal actuarial valuation, the Trustee updated the Scheme's Statement of Funding Principles (SFP). The SFP sets out the Scheme's funding objectives and the methods and assumptions used to assess the Scheme's Technical Provisions. The SFP is available on request from the Trustee Secretary.

The results of the formal 5 April 2017 actuarial valuation are available on the Scheme's website.

The Trustee monitors the Scheme's funding position between formal actuarial valuations and receives annual funding reports from the Actuary in years when a formal actuarial valuation is not carried out. At the time of writing, the latest annual update as at 5 April 2019 showed that the Scheme's funding position had improved since 5 April 2017 to a funding level of 108%. This improvement was mainly due to higher than expected investment returns, offset slightly by contributions paid being less than the cost of accrual over the year.

Since the actuarial report at 5 April 2018, which was updated at 5 April 2019, the Scheme has de-risked its investment strategy to invest predominantly in matching investments rather than return seeking investments. As a result, the approach to setting the discount rate will be reviewed in conjunction with the 5 April 2020 valuation to better reflect the lower risk, volatility and lower return from the future investment strategy. As the approach to setting the discount rate has not been agreed between the Trustee and the employers as part of the existing Statement of Funding Principles, the actuarial report liability noted above is based on the valuation date asset strategy and discount rate methodology. This would not be appropriate if a full actuarial valuation was carried out at this date.

As mentioned in the 5 April 2017 valuation report, the Trustee believes that it is desirable that the Scheme should provide a substantial degree of security for accrued benefits with limited reliance on support from the participating employers. They have therefore set a long-term objective to be fully funded on a 'low-dependency' basis over a reasonable period. This would be calculated with reference to market implied inflation and gilt yield curves with an assumption that the Scheme's non buy-in assets will return 0.5% pa in excess of gilt yields. Based on market conditions at 5 April 2019, the Scheme's liabilities based on a discount rate of gilts plus 0.5% pa (including a 2% allowance for GMP equalisation) was around £2,250 million, resulting in a shortfall on that basis of around £100 million.

The Scheme is currently undertaking a new formal actuarial valuation as at 5 April 2020, the results of which are expected to be finalised during summer 2021.

## Trustees' Report

### Statement of Trustee's Responsibilities

#### Trustee's responsibilities in relation to the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year, and
- state whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes (revised June 2018)', and
- contain the information specified in Regulation 3 and 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is also responsible for the maintenance and integrity of the [www.plumbingpensions.co.uk](http://www.plumbingpensions.co.uk) website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Act 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

Signed on behalf of the Board of Directors of Plumbing Pensions (UK) Limited acting as sole Trustee of the Scheme.

*John Allott*  
..... J Allott

*R E Price*  
..... R E Price MBE

Edinburgh 30/9/2020 2020

# Independent Auditors' Report to the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme

## Opinion

We have audited the financial statements of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the 'Scheme') for the year ended 5 April 2020, which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 5 April 2020, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Trustees and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a scheme associated with these particular events.

## **Independent Auditors' Report to the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (cont'd)**

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Trustee's conclusions, we considered the risks associated with the scheme's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the scheme's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the scheme will continue in operation.

### **Emphasis of matter – material uncertainty (property valuations)**

We draw attention to Notes 3 and 13 to the financial statements which describes the basis for valuing the directly held property investments as well as investments in the pooled property fund, CBRE long income fund. The Trustee engaged an expert to value their property portfolio, and the underlying assets of the pooled fund was valued by Cushman and Wakefield on behalf of CBRE. The expert and investment manager valuations both included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to management's valuations than would normally be the case. Our opinion is not modified in respect of this matter.

### **Other information**

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Independent Auditors' Report to the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (cont'd)**

### **Responsibilities of the trustee**

As explained more fully in the trustee's responsibilities statement set out on page 13, the scheme's trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the scheme's trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the scheme's trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustee as a body, for our audit work, for this report, or for the opinions we have formed.



**Grant Thornton UK LLP**  
**Statutory Auditor, Chartered Accountants**  
**London**

30/9/2020      2020

## Payment of Contributions

### For year ended 5 April 2020

The Trustee collects contributions from participating employers in accordance with the Scheme's Schedule of contributions. Each employer may have a combination of weekly, fortnightly, four weekly and calendar monthly paid employees. The Scheme closed to future accrual on 30 June 2019 and no further contributions as required by the schedule of contributions are collected from this date.

The Trustee takes the collection of contributions seriously. The Trustee is required by law to report to the Pensions Regulator late payments of contributions which are of material significance.

The following Summary of Contributions, which has been prepared on behalf of, and is the responsibility of, the Trustee, sets out the contributions paid to the Scheme under the Schedule of Contributions applicable for the year ended 5 April 2020 and were made prior to the Scheme closure on 30 June 2019.

|  | £                |
|--|------------------|
| Employers normal contributions                                 | 2,615,659        |
| Employee normal contributions                                  | 1,307,829        |
| Employer augmentation contributions                            | 20,000           |
|  | -----            |
| <b>Contributions required by the schedule of contributions</b> | <b>3,943,488</b> |
|  | -----            |
| <b>Other contributions</b>                                     |                  |
| Employee additional voluntary contributions                    | 37,952           |
| Section 75 debt  | 4,139,100        |
|  | -----            |
|  | <b>8,100,540</b> |
|  | =====            |

Signed on behalf of the Directors

*John Allott*

J Allott, Director

*R E Price*

R E Price MBE, Director

30/9/2020      2020

## Schedule of Contributions

### For the period 1 June 2019 to 31 May 2024

This Schedule of contributions has been prepared by the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (“the Scheme”), after obtaining the advice of the Actuary, Nicola MacKay FIA of Towers Watson Limited. The Trustee has discussed and agreed this schedule with Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers).

With effect from 1 July 2019 the Scheme is closed to future accrual and no contributions are required from Employers in respect of the future accrual of benefits.

#### 1. Contributions by the participating employers

The participating employers shall contribute in line with the following table for each benefit scale (participating employers’ contribution rates are expressed as percentage of earnings\*):

| Benefit Scale      | Contribution rates up to 30 June 2019 |
|--------------------|---------------------------------------|
| <b>2017 Scale</b>  | 7.5%                                  |
| <b>Basic Scale</b> | 10.6%                                 |
| <b>H2</b>          | 13.0%                                 |
| <b>H3</b>          | 16.6%                                 |
| <b>H4</b>          | 19.4%                                 |

\*Earnings are as defined in the Scheme’s Rules.

These contributions shall be paid to the Scheme no later than 19 days after the end of the calendar month to which they relate.

At the latest actuarial valuation dated 5 April 2017, the Scheme’s Statutory Funding Objective was met and as such a recovery plan is not required.

In addition to the contributions shown above, the participating employers shall pay the following:

- a. Additional contributions as may be required under the Scheme’s Rules in specific circumstances (for example to cover augmentations). The amounts of such contributions are to be advised by the Scheme Actuary.
- b. Such other contributions as may from time to time be agreed by the Trustee and the participating employers (as represented above).

## 2. Employee Contributions

Employees shall contribute in line with the following table (employees' contribution rates are expressed as percentage of earnings\*):

| <b>Benefit Scale</b> | <b>Contribution rates<br/>up to 30 June 2019</b> |
|----------------------|--|
| <b>2017 Scale</b>    | 3.75%  |
| <b>Basic Scale</b>   | 5.3%   |
| <b>H2</b>            | 6.5%   |
| <b>H3</b>            | 8.3%   |
| <b>H4</b>            | 9.7%   |

\*Earnings are as defined in the Scheme's Rules.

These contributions shall be deducted from members' pay and paid to the Scheme by the relevant employer no later than 19 days after the end of the calendar month in which they were deducted from pay.

## 3. Treatment of Expenses and the Pension Protection Fund Levy

Investment management costs, administrative and other non-investment expenses (including levies to the Pension Protection Fund) are met from the Scheme's resources. An ongoing funding reserve is included within the Scheme's technical provisions to meet these expenses.

## **Actuary's Certification of Schedule of Contributions**

### **1. Adequacy of Rates of Contributions**

I hereby certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 5 April 2017 to continue to be met for the period for which the schedule is in force.

### **2. Adherence to Statement of Funding Principles**

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 30 May 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

**Nicola MacKay**  
**Scheme Actuary**  
**Fellow of the Institute and Faculty of Actuaries**

**30 May 2019**

**Towers Watson Limited**  
**2 Lochrin Square**  
**96 Fountainbridge**  
**Edinburgh EH3 9QA UK**

## **Actuarial Certification for the purposes of regulation 7(4)(a) of the Occupational Pension Scheme (Scheme Funding) Regulations 2005**

### **Calculation of Technical Provisions**

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 5 April 2017 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 30 May 2019.

**Nicola MacKay**  
**Scheme Actuary**  
**Fellow of the Institute and Faculty of Actuaries**  
**30 May 2019**

**Towers Watson Limited**  
**2 Lochrin Square**  
**96 Fountainbridge**  
**Edinburgh EH3 9QA UK**

**Plumbing and Mechanical Services (UK) Industry Pension Scheme****Fund Account****for the Year ended 5 April 2020**

|  | <b>Notes</b> | <b>2020</b><br>£     | <b>2019</b><br>£     |
|--|--------------|----------------------|----------------------|
| <b>Contributions and Benefits</b>                |              |                      |                      |
| Contributions receivable - employers             | 5            | 2,615,659            | 7,999,807            |
| Contributions receivable - employees             | 5            | 1,345,781            | 4,117,053            |
| S75 Employer Debt                                | 5            | 4,139,100            | 7,123                |
| Augmentation contribution                        | 5            | 20,000               | -                    |
| Other income                                     | 6            | 90,556               | (2,618)              |
|  |              | -----                | -----                |
|  |              | 8,211,096            | 12,121,365           |
|  |              | -----                | -----                |
| Benefits payable                                 | 7            | 55,659,696           | 50,104,627           |
| Payments to and on account of leavers            | 8            | 12,909,183           | 1,983,422            |
| Administrative expenses                          | 9            | 4,511,919            | 3,388,576            |
|  |              | -----                | -----                |
|  |              | 73,080,798           | 55,476,625           |
|  |              | -----                | -----                |
| <b>Net Withdrawal from Dealings with Members</b> |              | <b>(64,869,702)</b>  | <b>(43,355,261)</b>  |
|  |              | -----                | -----                |
| <b>Returns on Investments</b>                    |              |                      |                      |
| Investment income                                | 10           | 45,016,154           | 42,961,008           |
| Change in market value of investments            | 13           | 84,398,758           | 153,663,622          |
| Investment management expenses                   | 11           | (2,024,928)          | (2,667,165)          |
|  |              | -----                | -----                |
| <b>Net Returns on Investments</b>                |              | <b>127,389,984</b>   | <b>193,957,465</b>   |
|  |              | -----                | -----                |
| <b>Net increase in the Fund during the year</b>  |              | <b>62,520,282</b>    | <b>150,602,205</b>   |
|  |              | -----                | -----                |
| <b>Net Assets of the Scheme:</b>                 |              |                      |                      |
| <b>At 6 April 2019</b>                           |              | 2,155,445,886        | 2,004,843,681        |
|  |              | -----                | -----                |
| <b>At 5 April 2020</b>                           |              | <b>2,217,966,168</b> | <b>2,155,445,886</b> |
|  |              | =====                | =====                |

The notes on pages 23 to 38 form part of these financial statements.

## Plumbing and Mechanical Services (UK) Industry Pension Scheme

### Statement of Net Assets

As at 5 April 2020

|   | Note | 2020<br>£            | Restated<br>2019<br>£ |
|---|------|----------------------|-----------------------|
| <b>Fixed Assets</b>                     | 12   | 1,917,084            | 1,966,240             |
| <b>Investment assets</b>                | 13   |                      |                       |
| Pooled investment vehicles              |      | 1,415,666,045        | 1,428,830,039         |
| Equities                                |      | 6,089,661            | 11,678,413            |
| Bonds                                   |      | 82,372,586           | 9,866                 |
| Derivative assets                       |      | 1,000,479            | -                     |
| Asset backed securities                 |      | 41,209,184           | -                     |
| Property                                |      | 149,161,934          | 175,250,000           |
| Cash Deposits                           |      | 24,372,540           | 3,257,432             |
| Receivables/Payables                    |      | 379,340              | (780,090)             |
| Insurance                               |      | 498,024,999          | 504,999,998           |
|   |      | -----                | -----                 |
|   |      | 2,218,276,768        | 2,123,245,658         |
|   |      | -----                | -----                 |
| <b>Investment liabilities</b>           | 13   |                      |                       |
| Derivatives                             |      | (8,549,167)          | -                     |
|   |      | -----                | -----                 |
|   |      | 2,209,727,601        | 2,123,245,658         |
|   |      | -----                | -----                 |
| AVC investments                         |      | 3,202,606            | 3,846,023             |
|   |      | -----                | -----                 |
| <b>Total net investments</b>            |      | <b>2,212,930,207</b> | <b>2,127,091,681</b>  |
| Current Assets                          | 14   | 5,738,066            | 28,593,739            |
| Current Liabilities                     | 15   | (2,619,189)          | (2,205,774)           |
|   |      | -----                | -----                 |
| <b>Total Net Assets at 5 April 2020</b> |      | <b>2,217,966,168</b> | <b>2,155,445,886</b>  |
|   |      | =====                | =====                 |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes account of obligations, is dealt with in the report on actuarial liabilities by the actuary in the annual report to members, and these financial statements should be read in conjunction with it.

These financial statements were approved by the Board of Directors of Plumbing Pensions (UK) Limited acting as sole Trustee of the Scheme on 30/9/2020 2020.

Signed on behalf of the directors:-

*John Allott*  
.....

**J Allott**

*R E Price*  
.....

**R E Price MBE**

The notes on pages 23 to 38 form part of these financial statements.

# Notes to the Financial Statements

## For the year ended 5 April 2020

### 1. Identification of the financial statements

Plumbing and Mechanical Services (UK) Industry Pension Scheme (the 'Scheme') is established as a trust under English law. The address for enquiries to the Scheme is: Trustee Secretary, Plumbing Pensions (UK) Ltd, Bellevue House, 22 Hopetoun Street, Edinburgh EH7 4GH.

### 2. Basis of Preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with FRS 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidelines set out in the Statement of Recommended Practice (SORP) (revised June 2018).

In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee has adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on these financial statements. However, it has required certain additions to or amendments of disclosures in the financial statements.

#### Going concern

The financial statements are prepared on a going concern basis. The impact of Covid-19 on the Scheme has been considered at note 19 below. The investment market weakness and volatility in bond and equity markets experienced in 2020 due to the Covid-19 pandemic has not had a significant impact on funding levels due to Scheme's low risk investment strategy. The Trustee continues to monitor investments closely and is advised by the Scheme investment managers, actuarial and other advisers and has confidence the investments held are sufficiently robust to deliver members benefits in full. On this basis, the Trustee is satisfied that the going concern basis for the preparation of the financial statements remains appropriate.

### 3. Accounting Policies

The principal accounting policies are set out below. Unless otherwise stated, they have been applied consistently year on year.

#### (a) Income and Expenditure

- (i) Contribution income is accounted for on a cash basis until the closure of the Scheme to future accrual on 30 June 2019. This is because participating employers submit summary returns each month which total the contribution to be made on behalf of their employees. It is only on an annual basis that the employer firms list the employees for whom contributions have been made during the year and reconcile these to the summary contribution returns submitted monthly. Only at this stage can the Scheme calculate the amounts which should have been received from each employer firm and identify accruals. This process can only be carried out after the scheme year end. As a result, it was not possible to account for contribution income on an accruals basis in the Scheme's year end accounts. From 1 July 2019, any contributions due are calculated and accounted for on an accruals basis.

#### S75 Debt Notices

Section 75 employer debt contributions are accounted for when a reasonable estimate of the amount receivable can be determined and adjusted for Trustee estimate of recoverable amount.

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 3. Accounting Policies (cont'd)

##### S75 Debt Notices (cont'd)

During the first half of 2019, the Scheme issued debt notices to employers that had triggered an employer debt. The Scheme does not expect to collect significant sums from issuing employer debt notices. In many cases, employers due to receive a debt notice have decided to use one of the legislative easements that allow them to defer a debt or transfer the pension liability to another participating employer. For other employers, the debts are unaffordable and a decision has been made to cease trading. The Trustee does not calculate or pursue an employer debt where the cost to do so is considered disproportionate from a financial perspective. The Trustee has a duty to pursue employers for the non-payment of debts. However, before the Trustee commences legal action against employers, it is petitioning the Scottish Court for directions on the availability of the Scheme Rule indemnity given its past actions.

- (ii) Investment income: Credit is taken for ordinary dividends when the security is quoted "ex-dividend" on the stock exchange in the country where the security is listed. Investment income includes withholding taxes which are accrued on the same basis as investment income. Any irrecoverable withholding taxes, are included within investment income.

Interest receivable on cash investments is recognised on an accruals basis. Bond income is accounted for on an accruals basis. Interest purchased and sold on investment transactions is reported through income.

Receipts from insurance policies held by the Scheme to fund benefits payable to Scheme members are included in investment income on an accruals basis to match the relevant benefits.

- (iii) Rental income is received quarterly in advance and is accounted for as earned under the terms of the lease.
- (iv) Expenditure chargeable against the Fund is recognised on an accruals basis.
- (v) Transfers to other schemes are at values determined by the Scheme's Consulting Actuaries and are accounted for on a cash basis.
- (vi) The functional and presentational currency of the Scheme is sterling. Investment income from foreign investment is converted into its sterling equivalent at the rate ruling at the date of receipt. Differences arising on valuation are accounted for in the change in market value of investments.
- (vii) Benefits payable are accounted for on an accruals basis. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type of amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving.
- (viii) Reinstatements are accounted for on a cash basis.

#### (b) Additional Voluntary Contributions

The Rules of the Scheme permit members to make additional voluntary contributions. These contributions are separately invested in an insurance company for the benefit of individual members. At the end of the financial year the policies are valued at market value by the AVC provider.

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 3. Accounting Policies (cont'd)

(c) Change in market value of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. For pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

(d) Tangible Fixed Assets and Depreciation

Tangible fixed assets represent property occupied by the Scheme and are stated at cost (or deemed cost) or valuation less accumulated depreciation and accumulated impairment. Depreciation is provided on a straight line basis at 2.5% per annum.

(e) Investments

Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used. Where quoted or other unit prices are not available, the Trustee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements.

The methods of determining fair value for the principal classes of investments are:

- (i) Equities, bonds, asset backed securities and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price. Unitised pool investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager before the year end. Accrued interest is excluded from the market value of bonds but is included in investment income receivable.
- (ii) Unitised insurance policy is valued on the same basis as pooled investment vehicles with similar characteristics.
- (iii) The bulk annuity insurance policy is valued by the insurer, L&G, at the amount of the related obligation, determined by taking into account member numbers and expected payments due.
- (iv) Investments in foreign currencies are translated into their sterling equivalents at the rates ruling at the year end.
- (v) Property is externally valued in line with RICS standards at the year end date by qualified chartered surveyors, CBRE.
- (vi) Derivatives - Swaps are valued at the net present value of future cashflows arising therefrom. Forward foreign exchange contracts are valued as the gain or loss arising from closing out the contracts at the reporting date by entering into an equal and opposite contract at that date. Exchange traded futures are valued by the difference between exchange settlement prices and inception prices. Collateral received in respect of stock-lending arrangements is disclosed but not recognised as a Scheme asset. Cash delivered under reverse purchase contracts is recognised as an investment receivable in the financial statements. Securities received in exchange are disclosed as collateral supporting this receivable but not included as Scheme assets.

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 4. General

Investment Managers' fees, legal fees and audit fees are borne by the Fund. All other costs and expenses of managing and administering the Scheme are met initially by Plumbing Pensions (UK) Administration Limited, a company which manages the Scheme. The loss of £4,185,173 (2019: £3,133,479) incurred during the year by Plumbing Pensions (UK) Administration Limited has been met by an invoice raised to the Fund for administration services provided. At the financial year end £807,233 was due from (2019: £316,079 due from) Plumbing Pensions (UK) Administration Limited. This amount is included within current assets.

| <b>5. Contributions Receivable</b>             | <b>2020</b> | <b>2019</b> |
|--|-------------|-------------|
|  | £           | £           |
| Employers - normal                             | 2,615,659   | 7,999,807   |
| Employees - normal                             | 1,307,829   | 3,999,903   |
| Employees - additional voluntary contributions | 37,952      | 117,150     |
| Employer - augmentation                        | 20,000      | -           |
| S75 Employer Debt                              | 4,139,100   | 7,123       |
|  | -----       | -----       |
|  | 8,120,540   | 12,123,983  |
|  | =====       | =====       |

During the year there have been 167 (2019: 658) occasions totalling £325,564 (2019: £1,756,881) where members' contributions were not received by the Scheme within the timescales set out in the schedule of contributions certified by the actuary dated 18 December 2015. Late contributions which account for £173,339 of the total were received within 30 days of the due date and the remaining balance £152,225 has not been received. The breaches are monitored by the Plumbing and Mechanical Services (UK) Industry Pension Scheme and 11 (2019: 28) occasions totalling £34,767 (2019: £73,020) have been notified to The Pensions Regulator.

| <b>6. Other Income</b> | <b>2020</b> | <b>2019</b> |
|------------------------|-------------|-------------|
|                        | £           | £           |
| Rental Income          | 84,448      | -           |
| Sundry Income          | 6,108       | (2,618)     |
|                        | -----       | -----       |
|                        | 90,556      | (2,618)     |
|                        | =====       | =====       |

| <b>7. Benefits Payable</b>                    | <b>2020</b> | <b>2019</b> |
|---|-------------|-------------|
|   | £           | £           |
| Pensions                                      | 38,340,985  | 36,749,455  |
| Commutations and lump sum retirement benefits | 16,877,263  | 12,524,609  |
| Lump sum death benefits                       | 441,448     | 830,563     |
|   | -----       | -----       |
|   | 55,659,696  | 50,104,627  |
|   | =====       | =====       |

## Notes to the Financial Statements (cont'd)

For the year ended 5 April 2020

|   |             |             |
|---|-------------|-------------|
| <b>8. Payments to and on Account of Leavers</b>   | <b>2020</b> | <b>2019</b> |
|   | £           | £           |
| Refunds to members leaving service  | 2,657       | 471         |
| Individual transfers to other schemes   | 13,111,755  | 1,982,705   |
| Contributions Equivalent Premium / Limited Revaluation Premium  | (205,229)   | 246         |
|   | -----       | -----       |
|   | 12,909,183  | 1,983,422   |
|   | =====       | =====       |
| <b>9. Administrative Expenses</b>   | <b>2020</b> | <b>2019</b> |
|   | £           | £           |
| Contributions to Plumbing Pensions (UK) Administration Ltd (see note 4)   | 4,185,173   | 3,156,496   |
| Pension Protection Fund Levy & Pension Regulator  | 204,243     | 201,125     |
| Audit fees  | 59,760      | 19,920      |
| Sundries and bank charges   | 62,743      | 11,035      |
|   | -----       | -----       |
|   | 4,511,919   | 3,388,576   |
|   | =====       | =====       |
| <b>10. Investment Income</b>  | <b>2020</b> | <b>2019</b> |
|   | £           | £           |
| Securities Lending  | -           | 118,891     |
| Income from asset backed securities   | 259,247     | -           |
| Income from pooled investment vehicles  | 2,419,489   | 288,775     |
| Income from bonds   | 1,673,166   | -           |
| Income from derivatives   | 816,517     | -           |
| Net income from property  | 6,950,792   | 7,517,063   |
| Dividends from equities   | 94,653      | 4,935,751   |
| Income from bulk annuity insurance policy   | 32,753,183  | 29,997,939  |
| Interest on cash deposits   | 49,107      | 102,589     |
|   | -----       | -----       |
|   | 45,016,154  | 42,961,008  |
|   | =====       | =====       |
| Net income from properties is stated after deducting £794,352 (2019: £585,595) of property related expenses and of this amount, £310,173, relates to bad debts. |             |             |
| <b>11. Investment Management Expenses</b>   | <b>2020</b> | <b>2019</b> |
|   | £           | £           |
| Investment Manager Fees   | 1,874,094   | 2,492,830   |
| Custodian Fees  | 27,026      | 34,783      |
| Other Fees  | 123,808     | 139,552     |
|   | -----       | -----       |
|   | 2,024,928   | 2,667,165   |
|   | =====       | =====       |

## Notes to the Financial Statements (cont'd)

For the year ended 5 April 2020

### 12. Tangible assets

|                       | Property  | Total Restated |
|-----------------------|-----------|----------------|
|                       | £         | £              |
| <b>Cost</b>           |           |                |
| At 6 April 2019       | 1,966,240 | 1,966,240      |
| Additions             | -         | -              |
| Disposal              | -         | -              |
|                       | -----     | -----          |
| At 5 April 2020       | 1,966,240 | 1,966,240      |
|                       | -----     | -----          |
| <b>Depreciation</b>   |           |                |
| At 6 April 2019       | -         | -              |
| Charge for the year   | 49,156    | 49,156         |
| Disposal              | -         | -              |
|                       | -----     | -----          |
| At 5 April 2020       | 49,156    | 49,156         |
|                       | -----     | -----          |
| <b>Net Book Value</b> |           |                |
| At 5 April 2020       | 1,917,084 | 1,917,084      |
|                       | =====     | =====          |
| At 5 April 2019       | 1,966,240 | 1,966,240      |
|                       | =====     | =====          |

### 13. Investments

|                              | Market Value Restated at 6 April 2019 | Purchases at Cost and Derivative Payments | Sale proceeds and Derivative Receipts | Change in Market Value | Market Value at 5 April 2020 |
|------------------------------|---------------------------------------|---|---------------------------------------|------------------------|------------------------------|
|                              | £                                     | £   | £                                     | £                      | £                            |
| Pooled investment vehicles   | 1,428,830,039                         | 1,695,787,361                             | (1,816,837,457)                       | 107,886,102            | 1,415,666,045                |
| Equities                     | 11,678,413                            | 348,482                                   | (4,511,269)                           | (1,425,965)            | 6,089,661                    |
| Bonds                        | 9,866                                 | 124,636,370                               | (32,304,192)                          | (9,969,458)            | 82,372,586                   |
| Asset backed securities      | -                                     | 139,011,253                               | (92,956,704)                          | (4,845,365)            | 41,209,184                   |
| Derivatives – net            | -                                     | 872,309,242                               | (877,226,469)                         | (2,631,461)            | (7,548,688)                  |
| Property                     | 175,250,000                           | 17,772                                    | (20,748,532)                          | (5,357,306)            | 149,161,934                  |
| AVC investments              | 3,846,023                             | 37,952                                    | (425,970)                             | (255,399)              | 3,202,606                    |
| Bulk annuity insurance       | 504,999,998                           | 725,000                                   | -                                     | (7,699,999)            | 498,024,999                  |
|                              | -----                                 | -----                                     | -----                                 | -----                  | -----                        |
|                              | 2,124,614,339                         | 2,832,873,432                             | (2,845,010,593)                       | 75,701,149             | 2,188,178,327                |
|                              | =====                                 | =====                                     | =====                                 | =====                  | =====                        |
| Receivables/payables         | (780,090)                             |   |                                       |                        | 379,340                      |
| Cash deposits                | 3,257,432                             |   |                                       |                        | 17,995,801                   |
| Cash due from counterparties | -                                     |   |                                       |                        | 6,376,739                    |
|                              | -----                                 |   |                                       |                        | -----                        |
|                              | 2,127,091,681                         |   |                                       |                        | 2,212,930,207                |
|                              | =====                                 |   |                                       |                        | =====                        |

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 13. Investments (cont'd)

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The properties in the investment portfolio were professionally valued at 5 April 2020 by CBRE, commercial real estate advisers who valued the property at £146,925,000. Property assets are also held within the PIV with a value of £38,371,937 and these were valued by Cushman and Wakefield on behalf of CBRE. The expert and investment manager valuations both included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to management's valuations than would normally be the case.

The investment figure also includes £2,236,934 in respect of lease incentives which are released to income over the period of the associated leases.

The insurance in the investment portfolio comprises a bulk annuity policy held with L&G for the benefit of 10,914 pensioners as at 5 April 2020. The annuity provider cannot provide the principal assumptions adopted in valuing the bulk purchase annuity because this information is commercially sensitive.

#### Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation note on page 26. Direct transaction costs incurred are analysed as follows:

|                   | 2020 Equities<br>£ | 2020 Bonds<br>£ | 2020 Other<br>£ | 2020 Total<br>£ |
|-------------------|--------------------|-----------------|-----------------|-----------------|
| Commission        | 278                | 5               | 1,058           | 1,341           |
| Taxes             | -                  | 8               | 44              | 52              |
| <b>2020 Total</b> | <b>278</b>         | <b>13</b>       | <b>1,102</b>    | <b>1,393</b>    |

In addition to the direct transaction costs disclosed above, indirect costs are incurred on the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustee to quantify such indirect transaction costs.

|                                   | 2020<br>£     | 2019<br>Restated<br>£ |
|-----------------------------------|---------------|-----------------------|
| <b>Equities</b>                   |               |                       |
| UK Equity – quoted                | 134,195       | 1,760,108             |
| Overseas Equity – quoted          | 5,955,466     | 9,918,305             |
|                                   | -----         | -----                 |
|                                   | 6,089,661     | 11,678,413            |
|                                   | =====         | =====                 |
| <b>Bonds</b>                      |               |                       |
| Index Linked/Fixed Income         | 82,372,586    | 9,866                 |
|                                   | =====         | =====                 |
| <b>Pooled Investment Vehicles</b> |               |                       |
| Bond Fund                         | 227,053,193   | 534,252,849           |
| LDI Bespoke Fund                  | 1,137,890,479 | -                     |
| Index Securities Fund             | -             | 857,964,259           |
| Infrastructure Fund               | 12,350,436    | 28,620,413            |
| UK Long Income Fund               | 38,371,937    | 7,992,518             |
|                                   | -----         | -----                 |
|                                   | 1,415,666,045 | 1,428,830,039         |
|                                   | =====         | =====                 |

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 13. Investments (cont'd)

##### Sole investor fund

The Scheme invests in the Legal & General Bespoke Fund of which it is the sole investor. This is shown within the pooled investment balances (Bond Fund) and a breakdown of the underlying investment classes held within the fund are noted below.

|                                  | 2020<br>£          | 2019<br>£ |
|----------------------------------|--------------------|-----------|
| UK Government Bonds              | 417,323,098        | -         |
| UK Index-Linked Government Bonds | 1,215,267,787      | -         |
| Liquidity fund                   | 18,697,458         | -         |
| Cash and accruals                | (513,397,864)      | -         |
|                                  | -----              | -----     |
|                                  | 1,137,890,479      | -         |
|                                  | =====              | =====     |
|                                  | 2020<br>£          | 2019<br>£ |
| <b>Derivatives-assets</b>        |                    |           |
| Swaps - OTC                      | 18,681             | -         |
| Currency - OTC                   | 975,111            | -         |
| Futures - OTC                    | 6,687              | -         |
|                                  | -----              | -----     |
|                                  | 1,000,479          | -         |
|                                  | -----              | -----     |
| <b>Derivatives-liabilities</b>   |                    |           |
| Swaps                            | (7,120,483)        | -         |
| Currency                         | (1,420,790)        | -         |
| Futures                          | (7,894)            | -         |
|                                  | -----              | -----     |
|                                  | (8,549,167)        | -         |
|                                  | -----              | -----     |
| <b>Derivatives</b>               | <b>(7,548,688)</b> | -         |
|                                  | =====              | =====     |

At the year end date, the derivative assets and liabilities are all over the counter derivatives. The Trustee has authorised the use of derivative financial instruments by their investment manager as part of the investment strategy as follows:

Futures – where cash is held for short term liquidity, the Trustee has entered into index-based contracts of equivalent economic value to avoid being 'out-of the market'.

Swaps – The Trustee aims to match the liability driven element of the investment portfolio with the Scheme's long term liabilities, particularly in relation to the sensitivities to interest rate movements.

Currency – The Trustee invests in overseas markets and assets denominated in foreign currency to construct a suitably diversified investment portfolio.

Collateral is held for unrealised gain on swaps comprising bonds and cash. The cash is held in an allocated account with counterparties' custodians and is not included within Scheme assets. At the year end, the client owned collateral is £897,634 and broker collateral is £1,038,652.

## Notes to the Financial Statements (cont'd)

For the year ended 5 April 2020

### 13. Investments (cont'd)

#### Derivatives (cont'd)

|                      | Notional<br>Amounts<br>£      | Expires     | Asset<br>Value<br>£      | Liability<br>Value<br>£     |
|----------------------|-------------------------------|-------------|--------------------------|-----------------------------|
| <b>Swaps</b>         |                               |             |                          |                             |
| Interest rate swaps  | 87,500,000                    | 1-30 years  | 18,681                   | (3,137,026)                 |
| Credit default swaps | 48,088,000                    | 2-5 years   | -                        | (3,929,552)                 |
| Swaption             | 3,600,000                     | 1-12 months | -                        | (53,905)                    |
|                      | -----<br>139,188,000<br>===== |             | -----<br>18,681<br>===== | -----<br>7,120,483<br>===== |

|                 |            | Notional<br>Amounts<br>£      | Settlement | Asset<br>Value<br>£       | Liability<br>Value<br>£       |
|-----------------|------------|-------------------------------|------------|---------------------------|-------------------------------|
| <b>Currency</b> |            |                               |            |                           |                               |
| Forward FX      | Bought USD | 43,304,742                    | 1-2 months | 975,111                   | (1,420,790)                   |
|                 | Sold USD   | 145,824,256                   |            |                           |                               |
|                 |            | -----<br>189,128,998<br>===== |            | -----<br>975,111<br>===== | -----<br>(1,420,790)<br>===== |

|                                      | 2020<br>£   | 2019<br>£   |
|--------------------------------------|-------------|-------------|
| <b>Property</b>                      | 149,161,934 | 175,250,000 |
|                                      | =====       | =====       |
| <b>Bulk annuity insurance policy</b> | 498,024,999 | 504,999,998 |
|                                      | =====       | =====       |

The Scheme holds a bulk annuity insurance policy with L&G which provides annuity income to cover pensions for certain members.

|                                | 2020<br>£                    | 2019<br>£                   |
|--------------------------------|------------------------------|-----------------------------|
| <b>Cash Deposits</b>           |                              |                             |
| Sterling                       | 18,627,360                   | 3,244,284                   |
| Non-Sterling                   | 5,745,180                    | 13,148                      |
|                                | -----<br>24,372,540<br>===== | -----<br>3,257,432<br>===== |
| <b>Cash Deposits</b>           |                              |                             |
| Deposits held                  | 17,995,801                   | 3,257,432                   |
| Amounts held by counterparties | 6,376,739                    | -                           |
|                                | -----<br>24,372,540<br>===== | -----<br>3,257,432<br>===== |

## Notes to the Financial Statements (cont'd)

For the year ended 5 April 2020

### 13. Investments (cont'd)

|                                  | 2020<br>£ | 2019<br>£ |
|----------------------------------|-----------|-----------|
| <b>Other investment balances</b> |           |           |
| Accrued investment income        | 322,277   | (837,140) |
| Outstanding traded securities    | 57,063    | 57,050    |
|                                  | -----     | -----     |
|                                  | 379,340   | (780,090) |
|                                  | =====     | =====     |

#### AVC Investments

The Trustee holds assets invested separately from the main fund in the form of managed funds to secure additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions (AVCs). These funds are allocated to members and are not available to the Trustee to fund Scheme benefits. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:-

|  | 2020<br>£ | 2019<br>£ |
|--|-----------|-----------|
| Legal & General (from Jun 2019, previously Prudential) | 3,202,606 | 3,846,023 |
|  | =====     | =====     |

#### Concentration of investments

Investments relating to UK Gilts accounting for more than 5% of the net assets of the Scheme have not been disclosed as the Scheme has taken advantage of the exemption provided under the Audited Accounts Regulations not to disclose such investment holdings. Other investments accounting for more than 5% of the net assets of the Scheme were:

|                            | 2020<br>Value<br>£ | 2020<br>% | 2019<br>Value<br>£ | 2019<br>% |
|----------------------------|--------------------|-----------|--------------------|-----------|
| L&G Bulk Annuity Insurance | 498,024,999        | 22.4      | 504,999,998        | 23.4      |
| DTZ Investment Management  | 149,161,934        | 6.7       | 175,250,000        | 8.1       |
| IIFIG Global ABS Fund      | 146,652,118        | 6.6       | -                  | -         |
| L&G TLDS Bespoke Fund      | 1,137,890,479      | 51.3      | -                  | -         |

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 13. Investments (cont'd)

##### Fair Value Hierarchy

The fair value of financial instruments has been determined using the following fair value hierarchy:

|         |   |
|---------|---|
| Level 1 | unadjusted quoted prices in an active market for identical instruments that the entity can access at the measurement date   |
| Level 2 | inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly and inputs which are unobservable i.e. for which market data is unavailable |
| Level 3 | where multiple inputs are involved in determining the fair value of an instrument, the categorisation is based on lowest level input (highest number) that is significant           |

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

|                            | Level 1           | Level 2              | Level 3              | Total<br>2020        |
|----------------------------|-------------------|----------------------|----------------------|----------------------|
|                            | £                 | £                    | £                    | £                    |
| Pooled investment vehicles | -                 | 227,053,203          | 1,188,612,842        | 1,415,666,045        |
| Equities                   | -                 | -                    | 6,089,661            | 6,089,661            |
| Bonds                      | -                 | 82,372,586           | -                    | 82,372,586           |
| Property                   | -                 | -                    | 149,161,934          | 149,161,934          |
| AVC investments            | -                 | 3,202,606            | -                    | 3,202,606            |
| Insurance                  | -                 | -                    | 498,024,999          | 498,024,999          |
| Asset backed securities    | -                 | 41,209,184           | -                    | 41,209,184           |
| Derivatives-net            | -                 | (7,548,688)          | -                    | (7,548,688)          |
| Receivables/payables       | 379,340           | -                    | -                    | 379,340              |
| Cash deposits              | 24,372,540        | -                    | -                    | 24,372,540           |
|                            | <u>24,751,880</u> | <u>346,288,891</u>   | <u>1,841,889,436</u> | <u>2,212,930,207</u> |
|                            |                   |                      |                      | Restated             |
|                            | Level 1           | Level 2              | Level 3              | Total<br>2019        |
|                            | £                 | £                    | £                    | £                    |
| Pooled investment vehicles | -                 | 1,392,217,108        | 36,612,931           | 1,428,830,039        |
| Equities                   | -                 | -                    | 11,678,413           | 11,678,413           |
| Bonds                      | -                 | 9,866                | -                    | 9,866                |
| Property                   | -                 | -                    | 175,250,000          | 175,250,000          |
| AVC investments            | -                 | 3,846,023            | -                    | 3,846,023            |
| Insurance                  | -                 | -                    | 504,999,998          | 504,999,998          |
| Cash deposits              | 3,257,432         | -                    | -                    | 3,257,432            |
| Receivables/payables       | (780,090)         | -                    | -                    | (780,090)            |
|                            | <u>2,477,342</u>  | <u>1,396,072,997</u> | <u>728,541,342</u>   | <u>2,127,091,681</u> |

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 13. Investments (cont'd)

##### Investment Risks

The Scheme's investment strategy is set out in the Scheme's Statement of Investment Principles and the Trustee determines its investment strategy after taking advice from its Investment Advisor.

FRS 102 (an accounting standard) requires the disclosure of information in relation to certain investment risks. Information on the Trustee approach to risk management, market and credit risk is set out in this note. Under accounting standards, market risk includes currency risk, interest rate risk and other price risk.

The Scheme has exposure to these risks because of the investments it makes in following the investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's segregated investment managers and monitored by the Trustee through regular reviews of the investment portfolio.

In the below table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly/ not at all.

| Category                   | Credit Risk | Currency | Market risk<br>Interest rate | Other price |
|----------------------------|-------------|----------|------------------------------|-------------|
| Equities                   | ◐           | ●        | ○                            | ●           |
| Property                   | ◐           | ○        | ◐                            | ●           |
| Bonds                      | ●           | ○        | ●                            | ●           |
| Credit                     | ●           | ◐        | ●                            | ●           |
| Pooled investment vehicles |             |          |                              |             |
| Direct                     | ◐           | ◐        | ○                            | ◐           |
| Indirect                   | ●           | ●        | ●                            | ●           |
| Asset backed securities    | ●           | ◐        | ◐                            | ◐           |
| Derivatives - net          | ◐           | ◐        | ◐                            | ◐           |
| Cash                       | ◐           | ◐        | ◐                            | ◐           |
| Pensioner Buy-in           | ●           | ○        | ●                            | ◐           |
| <b>Total Investments</b>   |             |          |                              |             |

##### Market risk

This comprises currency risk, interest rate risk and other price risk:

**Currency risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Interest rate risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 13. Investments (cont'd)

**Other price risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

#### **Credit risk**

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it directly invests in bonds, over-the-counter ('OTC') derivatives and has cash balances. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles £1,415,666,045 (2019: £1,428,830,039). The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

Credit risk arising on bonds £82,372,586 (2019: £9,866) held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. Credit risk arising on asset backed securities £41,209,184 (2019: £nil) and other investments is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated.

Credit risk arising on derivatives £7,548,688 net liability (2019: nil) depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements. Credit risk also arises on forward foreign currency contracts. There are collateral arrangements for these contracts, but all counterparties are required to be at least investment grade. Credit risk on repurchase agreements is mitigated through collateral arrangements.

Cash £24,372,540 (2019: £3,257,432) is held within financial institutions which are at least investment grade credit listed.

#### **Direct Credit Risk**

The Scheme is exposed to direct credit risk as a result of its investment in segregated and pooled vehicles and the risk of investment manager failure. Of the total pooled investment value noted above, the sole investor fund accounts for £1,137,890,479 (2019: nil). Direct credit risk exposure is mitigated through appropriate structuring of the pooled arrangements, with assets segregated from the assets of the manager in accordance with applicable regulations, such as Financial Conduct Authority client asset rules and regulation by the Prudential Regulation Authority.

Investment in the majority of the Scheme's pooled funds is held with Legal and General Assurance (Pensions Management) Limited ("PMC") by way of purchase of an insurance policy. The PMC has appointed Legal & General Investment Management Limited ("LGIM") to act as the investment manager to the PMC. LGIM manage the assets which are owned by the PMC which writes only a small enough amount of pure life insurance to qualify as a life company and this is more than covered by its capital and reserves. The assets underlying the policy, therefore, are effectively ring-fenced.

The Trustee carries out due diligence upon the appointment of new pooled investment managers. The Investment Advisor monitors any changes to the operating environment of the pooled managers on an ongoing basis.

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 13. Investments (cont'd)

##### Direct Credit Risk (cont'd)

The Scheme is also subject to credit risk because the Scheme has an investment in the Multi Asset Credit mandate managed by PIMCO, a Global Asset Backed Securities Fund managed by Insight and cash balances. Credit risk arising from counterparty risk is assessed by the fund managers prior to making an investment. Credit risk associated with cash balances is mitigated in this instance by holding cash with what are considered reputable financial institutions.

The bulk annuity policy with Legal and General Assurance Society ("LGAS") £498,024,999 (2019: £504,999,998) is subject to direct credit risk. The credit risk of the policy is considered to be small due to the financial security of LGAS and the capital reserving requirements of insurers set by the Prudential Regulation Authority.

Property £149,161,934 (2019: £175,250,000) is subject to the risk of the underlying tenant defaulting, hence preventing the receipt of cashflows. This risk is partially mitigated through the ownership of the building which enables the property to be let to a different tenant or an alternative use to be employed should such a default occur. The appointed property manager also regularly considers tenant quality and determines safeguards to put in place.

##### Currency risk

The Scheme is subject to currency risk through some of the Scheme's investments held in overseas markets through pooled investment vehicles (indirect exposure) and segregated equity and credit mandates. This exposure is mitigated through the diversified nature of the funds and risk controls within those funds.

##### Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in LDI, credit, property assets invested through pooled funds, bonds and swaps. The LDI assets held were set in the context of the Scheme's liabilities and are therefore expected to have similar characteristics to the Scheme's liabilities (excluding longevity). The credit and property assets are sensitive to long term interest rates as it affects their valuation but are expected to provide a long-term return in excess of the Scheme's liabilities.

The buy-in also contains interest rate risk but was undertaken in direct reference to the Scheme's pensioner liabilities as set out in the policy with LGAS.

##### Other price risk

Other price risk arises principally in relation to the return seeking assets which include directly held equities, equities held in pooled vehicles and investment properties. In particular, there is the price risk that arises from difficulties in accurately valuing illiquid assets such as those in the DTZ and CBRE portfolios. This is because transaction volumes tend to reduce and there is greater uncertainty with respect to pricing. In times of market stress and heightened uncertainty, as seen during the development of the Covid-19 pandemic, this risk is elevated. We have seen managers apply what is called a material valuation uncertainty clause to reflect this increased uncertainty. The Trustee understands this risk and the purpose of accepting this risk is to ensure that, when considered as a whole, the assets of the Scheme form a suitability diversified portfolio in terms of the type of risk taken and the sources of expected return.

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 13. Investments (cont'd)

##### Other price risk (cont'd)

Additionally, before each appointment, the Trustee receives advice from the Scheme's Investment Advisor on the suitability and risks to the Scheme of both the asset class and fund manager being appointed. The Trustee takes advice from its Investment Advisor as to the continuing suitability of the asset classes and managers in which the Scheme invests.

| <b>14. Current Assets</b>                          | <b>2020</b> | <b>2019</b> |
|--|-------------|-------------|
|  | £           | £           |
| Cash at bank                                       | 3,601,349   | 28,274,912  |
| S75 debtors  | 1,326,877   | -           |
| VAT recoverable                                    | 2,607       | 2,748       |
| Plumbing Pensions (UK) Administration Ltd (Note 4) | 807,233     | 316,079     |
|  | -----       | -----       |
|  | 5,738,066   | 28,593,739  |
|  | =====       | =====       |
| <br>   |             |             |
| <b>15. Current Liabilities</b>                     | <b>2020</b> | <b>2019</b> |
|  | £           | £           |
| Accrued Investment Management Fees                 | 250,246     | 514,070     |
| Accrued Performance Fees                           | 43,830      | 257,677     |
| Accrued Professional Fees                          | 57,498      | 19,020      |
| Accrued Buy-in True-Up                             | 923,730     | -           |
| VAT  | 368,678     | 370,308     |
| Tax and social security                            | 340,431     | 316,771     |
| Benefits payable                                   | 634,776     | 727,927     |
|  | -----       | -----       |
|  | 2,619,189   | 2,205,774   |
|  | =====       | =====       |

#### 16. Employer Related Investment

There were no employer related investments in the year (2019: £Nil).

#### 17. Related Party Transactions

There are no material transactions with any of the directors of the Trustee company of the Scheme other than in normal course of operating. The Trustee company holds 100% of the share capital of Plumbing Pensions (UK) Administration Limited, a company which manages the Scheme. Transactions with the Scheme during the year are disclosed in note 4 and these recharges are not at arms-length but are in the normal course of business. At the financial year end £807,233 was due from (2019: £316,078 due from) Plumbing Pensions (UK) Administration Limited. This amount is included within current assets.

The Directors of the Trustee company who are members of the pension scheme are as follows:

- Mr J Allott is a deferred member of the Scheme
- Mr A Beaumont has been a pensioner since 11 January 2020
- Mr R Frew has been a pensioner since 24 March 2012

These Trustee members receive and accrue benefits in line with the Scheme Rules.

During the year, the Trustee company paid £62,910 (2019: £38,415) to companies which provided independent trustee services to the Scheme.

## Notes to the Financial Statements (cont'd)

### For the year ended 5 April 2020

#### 18. Prior year adjustments

The financial statements for the prior year have been restated to reflect the reclassification of a property held as investment property to tangible fixed assets from 5 April 2019. The impact on the financial statements of this reclassification is that Investment have reduced by £1,966,240 and Fixed Assets have increased by the same amount. There is no impact on the Fund Account.

Previously, the value of the investment property was held at cost as the Trustee was satisfied that there had been no diminution in value. However, following the reclassification and in accordance with FRS 102, depreciation has been accounted for from 6 April 2019 on a straight-line basis over 40 years.

Following a review of the classification of investments and in accordance with the SORP prescribed disclosure categories, the comparative figures for the investments have been restated to reclassify the Infrastructure Fund, the Long Income Fund and Index Linked Securities as part of pooled investment vehicles to be in line with the SORP due to the misinterpretation of information in prior year. The value of these funds at 5 April 2019 was £894,577,190 and the reclassification did not impact the overall investment total or the Fund Account.

#### 19. Contingent liability

The 2017 actuarial valuation calculations do not include any allowance for Guaranteed Minimum Pension to be equalised between men and women. At the time of preparing the financial statements this amount is not known. However, the Scheme's remaining surplus would be treated as a reserve towards the additional liabilities arising as a result.

#### 20. Capital commitments

There is an agreement in place for the Scheme to invest £75m with CBRE and at the year end date £35,098,545 remains to be invested.

## Additional Information

### Where to go for help

#### Trustee Secretary

Bellevue House  
22 Hopetoun Street  
Edinburgh EH7 4GH

**T:** 0131 556 9090

**E:** [info@plumbingpensions.co.uk](mailto:info@plumbingpensions.co.uk)

**W:** [www.plumbingpensions.co.uk](http://www.plumbingpensions.co.uk)

#### The Money & Pensions Service (MPAS)

The Money & Pensions Service (MAPS) is being set up by government to combine the Pensions Advisory Service, Pension Wise and the Money Advice Service. At the time these accounts were prepared, individuals seeking money or pensions help should contact the appropriate organisation:

*The Pensions Advisory Service (TPAS)* offers free and impartial guidance on workplace and personal pensions.

**T:** 0800 011 3797      **W:** [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

*Pensions Wise* provides guidance for over 50's with a workplace or personal pension.

**T:** 0800 138 3944      **W:** [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

*The Money Advice Service* offers money guides, tools and calculators to help individuals improve their finances.

**T:** 0800 138 7777      **W:** [www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk)

**The Pensions Ombudsman** can help with a pensions complaint or dispute.

**T:** 0800 917 4487      **W:** [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

**E:** [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

**The Pensions Regulator (tPR)** regulates UK workplace pension schemes.

**T:** 0870 606 0707      **W:** [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

**E:** [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)

**The Pensions Tracing Service** helps members trace pension benefits from previous employments.

**T:** 0800 731 0193      **W:** [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)